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BEFORE THE ARIZONA CORPORATION CO
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2006 MAR 23 P 4: 34

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS PARADISE
VALLEY WATER DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION,
FOR APPROVAL OF AN AGREEMENT
WITH THE PARADISE VALLEY COUNTRY
CLUB

DOCKET NO. W-01303A-05-0910

NOTICE OF FILING

The Staff of the Arizona Corporation Commission ("Arizona Commission") hereby gives
Notice of Filing the attached Exhibits to be sponsored by Staff Witness Darron Carlson.

RESPECTFULLY SUBMITTED this 23rd day of March, 2006.

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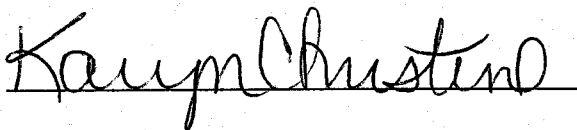
1 Original and fifteen (15) copies
2 of the foregoing were filed this
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3 Docket Control
4 Arizona Corporation Commission
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6 23rd day of March, 2006 to:

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ALTERNATIVE FIRE FLOW SURCHARGE
DOCKET NO. W-01303A-05-0405

In its direct testimony, Staff proposed a "High-Block" surcharge of \$2.15 to be applied to all gallons in the top tier of each rate schedule to be implemented coincident with the new rates in Arizona-American Water Company's ("Company") application. Amounts collected are to be treated as Contributions in Aid of Construction ("CIAC"). In its surrebuttal testimony Staff recommended that the "High Block" surcharge collections be used to offset the fire flow projects.

The Company had proposed a two step "Public Safety" fire flow surcharge. However, in discussing Staff's proposal, the Company's rebuttal testimony indicated that it would defer the timing of the fire flow projects since the High Block surcharge would not produce adequate cash flow. Mr. Townsley's testimony indicates that "the Company has slowed the pace of these projects until the Commission's wishes are more clearly stated".

The Company has asked Staff to explore possible acceleration of the fire flow surcharge collections to assist in completing the project on a more timely basis. As an alternative, in the event the Commission believes a surcharge is appropriate, Staff suggests a second phase, which would also be used specifically for fire flow surcharges, that would take effect on October 1, 2007. The second phase would increase the High Block surcharge from \$2.15 to \$3.15 per 1,000 gallons. A new "Public Safety" surcharge for the 2nd Tier residential rate of \$1.00 per 1,000 gallons and for the 1st Tier of commercial rate of \$1.00 per 1,000 gallons would also begin October 1, 2007.

Staff estimates that the High Block surcharge of \$2.15 would generate approximately \$1.7 million annually. Implementation of the October 1, 2007 increases would generate an additional \$1.8 million annually for a total of \$3.5 million annually. See Attached Schedule DWC.

The potential benefits from a phase-in fire flow surcharge include the following:

- Encourage conservation in a water district with historically high usage.
- Increase contributions in aid of construction which will reduce future rate increases.
- Permit more timely implementation of fire safety related infrastructure.

The surcharges will have no effect on the median (11,500 gallons) or average (22,193 gallons) residential bills since the surcharge for the 2nd Tier residential starts at 25,000 gallons. Thus, the median and average residential users will not be impacted.

Notwithstanding this alternative, Staff continues to recommend a \$2.15 "High Block" surcharge be implemented when new rates take effect and for the monies collected by this surcharge to be used to offset the cost of the fire flow project.

If the Commission adopts this alternative, Staff recommends that that the Public Safety surcharge be terminated and the High Block surcharge be reduced back to \$2.15 once the Company has fully recovered its fire flow project costs.

DOCKET NO. W-01303A-05-0405

Staff recommends modification of the authorized allowance for funds used in construction ("AFUDC") methodology granted in Decision No. 68303 related to the fire flow project. Staff recommends a modification to the authorized AFUDC calculation to take into account amounts collected by the surcharge. The surcharge collections should be a deduction for purposes of calculating the balance to which the AFUDC fire flow rate is applied. The modification is necessary to allow the Company to recover its capital costs only on its net investment in fire flow projects.

Staff recommends a modification of the AFUDC calculation for the accounting order in Decision No. 68303 related to the fire flow project as described herein.